



CITY COUNCIL

Finance Committee

Meeting Report Monday, March 3, 2008

Committee Members Attending: J. Waltman, Chair, S. Fuhs, M. Baez

Others Attending: L. Churchill, C. Younger, R. Hottenstein, S. Lingle (Triad Associates), A. Mukerji, D. Cituk, L. Kelleher

EXECUTIVE SESSION

Prior to the start of the Finance Committee meeting the body of Council met in an executive session to discussion litigation pertaining to the Commonwealth Court's ruling on the City's Aggressive Animal Ordinance. The executive session concluded at approximately 5:50 pm.

ENERGY AND OPERATIONAL COST AVOIDANCE GUARANTEE PROGRAM

Mr. Salmone from Honeywell International was introduced to the Committee by Mr. Churchill. Mr. Churchill provided some background information on phase one of the program.

Mr. Salmone introduced the Honeywell team. He explained that the surveys have been completed and, with Council approval, Honeywell can begin the first improvement phase which will save the City approximately \$42,000 per month. Honeywell expects the first phase of the construction project to end before December 31, 2008. The City is not expected to begin making payments until the project is complete. It is believed that the City can cover the project payments with the savings previously noted. The interest rate on the first phase is estimated to be 4.1%. Honeywell expects the City to realize a total of \$325,000 in energy savings (oil, gas, electricity) and \$195,000 in operational savings (non-energy related expenses). Mr. Salmone explained that in addition to the construction costs, Honeywell earns 3% of

the savings generated. Honeywell has completed similar projects in Pottsville, Lebanon and Lancaster County.

Mr. Waltman inquired about the risks. Mr. Salmone replied that the risk lies with Honeywell as the savings are guaranteed. Mr. Salmone stated that Honeywell believes that the savings generated for the City could be large enough to fund new, larger projects.

Mr. Churchill stated that the project is covered through self-liquidating funding and the expense will be covered through the savings generated. Mr. Hottenstein explained that each affected component (water fund, sewer fund, etc) will be charged accordingly.

Mr. Salmone stated that Honeywell will maintain and monitor savings over a 15 year period and will make amendments and changes as needed.

Mr. Younger was asked to provide the Council office with a copy of the contract with Honeywell.

Mr. Salmone distributed a "green sheet" for the project denoting the environmental impact of the first phase.

CDBG FUNDING REPORT

Mr. Spencer stated that Council was last updated on this issue in December and learned that the City needed to spend \$4.5 million of CDBG funding by October 2008.

Steve Lingle, from Triad Associates, distributed memos issued to Mr. Mukerji, Mr. Nemeth, and Mr. Churchill in February 2008 reporting the following:

- \$764,002 of Pre-HOME 2008 funds will be used by OCR or NHS
- \$906,768 of Pre-2008 CDBG funds are available to commit
- Repayment of the \$1.9 million float loan to Our City Reading will be recovered and must be expended by October 2008.
 - Approximately \$700,000 to be committed to a new ladder truck
 - Approximately \$2 million will be used to cover a variety of projects that have been under-funded

Mr. Lingle explained that the HUD annual timeliness test is conducted 60 days prior to the end of the City's CDBG program year. By October 31, the City cannot have an amount in excess of 1.5 times the annual allocation. As the 2008 allocation is expected to be approximately \$3 million, our draw down amount cannot exceed \$4.5 million.

Mr. Lingle stated that as of February 19, 2008, the City had an available draw amount

of \$2.4 million. As, over the new few months the City will be receiving its 2008 allocation of \$3 million and will recapture the balance of the Our City Reading float loan of \$1.9 million, the City will have approximately \$7.3 million. To accomplish the spending required under the HUD timeliness test the City must spend \$2.7 million by the end of October 2008.

Mr. Lingle explained that after assessing all CDBG activities it is believed that the City will need to spend an additional \$497,000 to meet the timeliness test. The City has identified the following projects to expend these additional monies:

- Emergency demolition - \$85,000 - \$200,000
- RBI Neighborhood - \$54,000
- City Park - \$65,000 - \$200,000
- Relighting project - \$125,000
- Miscellaneous activities - \$50,000 - \$75,000
- Commercial Residential Façade - ?
- Hillside Playground - ?
- Hampden Park - \$165,000

Mr. Lingle stated that if the City cannot move forward with these expenditures, new activities must be identified. He stated that Ms. Kelleher from the Council office has advised Triad of several projects at Hampden Park and George Field that are ready to be bid out.

Mr. Lingle stressed the need for the City to improve its monitoring of the activities and allocations in the CDBG action plan and identify areas where underspending is present. He noted that OCR and Abilities In Motion are examples of activities that do not spend down the monies allocated to them. He also stressed the need for the City to reallocate funding when projects are not started or completed in a timely manner. Mr. Mukerji noted the difficulty in removing funding once it is allocated. Mr. Lingle suggested requiring business plans and engineering reports from applicants before approving allocations in the CDBG action plan.

Ms. Kelleher was asked to obtain an update on the Elks Project and the Liberty Firehouse Project.

Mr. Lingle again stressed the need to have projects in a ready to go state before including them in the action plan. Mr. Waltman suggested the Administration develop financial policies to correct potential issues and problems with CDBG allocations and spending.

Mr. Mukerji explained the CDBG application process. Since the City and County now run on the same budget year, applications are submitted to the County CD office and

then reviewed by both the City and the County jointly.

Mr. Spencer requested that the Administration revise internal policies to require applicants to submit business plans and engineering reports before approving applications.

Mr. Lingle also suggested that Council provide project lists to the Administration for inclusion in the CD budget. He suggested that two lists be developed – the first list being the approved projects and the second list to be used if additional funding becomes available.

The need for better project management was next discussed. All present recognized the need to hold those receiving CDBG allocations accountable.

2008 BUDGET

Mr. Churchill reported on the financial crunch caused by certain revenues coming in below expectations. He explained that the amount of the deficit is unknown as the Administration is still calculating revenues and expenditures. He noted that charges for indirect costs are higher than expected.

Mr. Waltman referred to the 2008 budget message which does not identify the possibility of ending 2008 in a deficit. He also noted that the numbers distributed do not reflect those in the 2008 budget.

Mr. Fuhs expressed the belief that the Administration ignored current trends and did not present critical information to Council as they considered the 2008 presented by the Administration.

Mr. Waltman again noted that the report distributed does not correlate with the 2008 or 2007 budget. He noted Council's past inquiries about certain line items that have been trending down. He reminded all that the use of a bond to cover approximately \$8 million of City operational costs created a projected \$3 million overage at the end of 2007. He inquired how the Administration can explain the loss of \$2 million over a two month period and noted the need for the Administration to pinpoint the City's current financial state.

Mr. Churchill reported that the City had an overage of \$2.1 million at the end of 2007.

Mr. Spencer inquired why the Mayor would not attend this Finance Committee meeting when it was known that this issue would be discussed. He also noted the Mayor's absence during all budget discussions.

Mr. Spencer took issue with the Administration's statement that Council was unwilling to consider tax and fee increases that would have corrected this gap. He stated that Council has always been willing to consider tax and fee increases when the Administration provides proper justification.

Mr. Spencer also took issue with the Administration's statement that Council should have taken steps to control finances. He noted that Council did indeed make many inquiries about the need to address the City's structural deficit. The Administration responded to these inquiries by saying that a surplus was expected in 2008.

Mr. Spatz inquired which of the three surplus figures identified by the Administration are correct.

Mr. Churchill replied that the City began 2008 with a \$2.2 million surplus and will end 2008 with a \$214,000 deficit.

Mr. Waltman called the group's attention to the budget message that accompanied the 2008 \$71 million budget identifying the approximate surplus of \$3 million to carry forward through 2008. Mr. Waltman expressed the belief that the numbers presented to the committee tonight are different from that presented in the past. He stated that the 2007 surplus was not a part of the 2008 budget and questioned where those monies were allocated.

Mr. Spencer agreed that if the Administration had made Council aware of the pending deficit, Council would have taken a different approach and amended the budget presented by the Administration.

Mr. Hottenstein recalled discussions on the structural deficit. He explained that the addition of fire training at approximately \$500,000 was an unexpected expense.

Mr. Spencer noted that lack of quarterly financial reports that would have provided information on revenue trending and the pending deficit. He reminded the Administration that a financial report was not prepared and submitted for this committee meeting.

Mr. Waltman stressed the need for the Administration to present Council with a better report of expenditures and revenues so these errors can be avoided in the future.

Mr. Fuhs noted his difficulty in understanding the loss of \$2 million over a two month period.

Mr. Spencer apologized to the Managing Director and Finance Director as many of

these comments should be directed to the Mayor. He directed the inclusion of many questionable expenditures in the 2008 budget.

Ms. Goodman-Hinnershitz expressed concern of the City's continued use of one time fixes rather than accurate projections that could assist with correcting the City's structural deficit.

Mr. Waltman noted the need for Council and the Administration to consider both long and short term approaches when addressing each annual budget.

Mr. Hottenstein explained that a gap of \$1.32 - \$1.5 million falls within a 3% margin of error.

Mr. Churchill expressed the belief that the Administration will have to rethink the presentation of monthly finance reports. He expressed the belief that the various short term fixes enabled the City to provide improved public services.

Mr. Churchill described the hiring freeze across the board. He stated that the Administration is currently monitoring discretionary spending. He added that the Administration is also working on developing a retirement incentive plan to achieve some downsizing.

Mr. Churchill added that the Administration is currently looking at the revenue side in pursuit of changes that will improve performance. He noted the availability of creating storm water utilities to cover the cost of street cleaning and other services. He also asked Council to consider the possibility of outsourcing the water utility or parking facilities. He explained that layoffs are only one of the Administration's available options.

Mr. Spencer inquired if the Administration intends to use Antietam Funds to cover the gap. Mr. Churchill replied that the Mayor has already expressed his desire to use Antietam monies to cover improvements to park and recreation facilities.

Mr. Fuhs stressed the need for the Administration and Council to consider the effect the waste water treatment plant project will have on the City's structural deficit.

Mr. Waltman noted the need to control expenses and revenues in ways that encourage efficiencies. He stressed the need for Council and the Administration to consider all options as they work on the 2009 budget.

As no further business was brought forward, the Finance Committee meeting adjourned

Respectfully submitted by,

Linda Kelleher
City Clerk